Container Corporation of India Limited

October 12, 2020

Ratings

Facilities^	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities - Non Fund Based	-	-	**Revised to CARE AA+; Under Credit Watch with Developing Implications, from CARE AAA; Under Credit Watch with Developing Implications, and Withdrawn**
Issuer Rating	-	**CARE AA+ (Is); Under Credit Watch with Developing Implications [CARE Double A Plus (Issuer Rating); Under Credit Watch with Developing Implications]**	**Revised from CARE AAA (Is); Under Credit Watch with Developing Implications and Rating placed on Notice of Withdrawal for 3 months.**

^*Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

CARE has revised the outstanding ratings of Container Corporation of India Limited (CONCOR) from 'CARE AAA; Under Credit Watch with Developing Implications' [Triple A; Under Credit Watch with Developing Implications] to 'CARE AA+; Under Credit Watch with Developing Implications' [CARE Double A Plus; Under Credit Watch with Developing Implications] and withdrawn the same with immediate effect. The above action has been taken at the request of CONCOR and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The revision in the ratings assigned to CONCOR is on account of the expected moderation in its financial profile due to the steep increase in the Land License Fee (LLF) levied by Ministry of Railways. Till FY20, LLF was a variable cost based on the volumes/TEUs handled by the company. However as per the revised policy, the LLF rates would be fixed rentals based on land value of various terminals resulting in significant increase in expenses impacting the profitability margins. Going forward the cash generation for CONCOR is expected to moderate as it will be challenging to completely pass on the increase in cost to the consumers amidst the highly competitive and weak trade scenario in the post Covid-19 environment. The revision in rating also factors in the ongoing divestment of government's stake in the company along with ceding the management control to the strategic buyer. The ratings however, continue to derive strength from CONCOR's dominant position in container railroad business, wide network of terminals spread across the country, its established client base, comfortable liquidity and strong capital structure with zero fund-based borrowings as on March 31, 2020.

Further, the ratings continue to remain on credit watch with developing implications on account of the ongoing process of divestment of government's stake and lack of clarity on the strategic buyer. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

In addition, CARE has placed the outstanding Issuer Rating assigned to CONCOR on 'Notice of Withdrawal' with immediate effect. The aforesaid rating would continue to remain on 'Notice of Withdrawal' for a period of 3 months, after which it would stand withdrawn. The above action has also been taken at the request of CONCOR.

Detailed description of the key rating drivers

Key Rating Strengths

Government of India ownership; however divestment in progress

CONCOR is a public sector enterprise under the Ministry of Railways and is the sole container freight subsidiary of Indian Railways. As on June 30, 2020, the Government of India held 54.80% stake in the company while the balance is held by financial institutions and banks, foreign institutional investors and public. However, in November 2019, the Cabinet Committee on Economic Affairs (CCEA) has given in-principle clearance for divestment of government's stake in CONCOR by 30.80% along with ceding the management control to the strategic buyer while GoI will retain 24% shareholding post divestment. The rating continues to be on credit watch on account of the same.

Market leader in the segment with strong infrastructure base

CONCOR is India's largest railway container freight operator. The company has carried 40.43 million tons of containerized cargo by rail in FY20 representing 66.04% of total market size. It operates in two segments – EXIM and domestic. The company has strong infrastructure base with total wagons holding at 15,578 and 63 terminals as on March 31, 2020.

Comfortable financial profile marked by strong capital structure and comfortable profitability; however likely to get impacted with the steep increase in LLF by Ministry of Railways
During FY20, the total operating income of CONCOR witnessed a decline of 5.38% to Rs. 6,753.52 crore as against Rs. 7,137.55 crore in FY19. The PAT margin of the company fell to 5.56% in FY20 as against 17.03% in FY19 largely on account of SEIS income being written-off due to ineligibility.
However, the overall capital structure continued to be strong marked by nil fund-based debt as on March 31, 2020. The overall gearing of the company stood at 0.00x as on March 31, 2020. The liquidity profile of the company remained comfortable with current ratio of 2.54x (PY: 2.33x) as on March 31, 2020. CONCOR had free cash and bank balances of Rs. 2,168.59 cr (PY: Rs. 123.34 cr) as on March 31, 2020.
Q1FY21 Performance: During Q1FY21, the total operating income of CONCOR decreased to Rs. 1,247.94 crore as against Rs. 1,697.19 crore in Q1FY20; registering a decline of 26.47%. The moderation in the Q1FY21 performance was primarily due to the nation-wide lockdown restrictions and supply chain restrictions amidst the Covid-19 outbreak. Further, the PBILDT & PAT margin declined significantly to 17.46% and 4.94% respectively in Q1FY21 vis-à-vis 27.19% & 13.42% in Q1FY20.
Further, the moderation in the performance of CONCOR is also in accordance with the change in the method of calculating Land License Fee (LLF). Till FY20, the company paid a LLF to the Railways on the railway land leased to it on the variable basis linked to the number of TEUs handled. Ministry of Railways, Government of India vide its order no.2015/LML-11/13/4 dated 19.03.2020, had communicated that the LLF applicable on the Railway land leased to CONCOR shall now be charged w.e.f. April 01, 2020 as per extant policy of Railways i.e. @6% of the value of land, which will be further increased 7% annually. CONCOR received a demand of Rs. 776.89 crore from the Ministry of Railways as the LLF for FY21 for the Okhla and Tughlakabad Terminals of CONCOR at Delhi. As per the company's assessment, an amount of Rs. 120.67 crore has been estimated by applying extant policy of Railways as LLF for all terminals on Railway Land for quarter ended June 30, 2020. The company is however, representing to the Ministry of Railways for continuation of the earlier policy.

Healthy operational performance
During FY20, CONCOR’s total throughput witnessed a decrease of 2.13% to 3.75 million Twenty-foot Equivalent Units (TEUs) as against 3.83 million TEUs handled in FY19. The EXIM container traffic handled also decreased to 3.15 million TEUs in FY20 (PY: 3.25 million) while domestic handling improved to 0.59 million TEUs in FY20 (PY: 0.58 million).

Strong Liquidity
The liquidity of the company is marked by adequate gross cash accruals of Rs. 716.17 crore during FY20 against nil debt repayment obligations. CONCOR had unencumbered cash and cash equivalents of Rs. 2168.59 crore (PY: 123.34 crore) as on March 31, 2020. The overall gearing of the company stood 0.00x (PY: 0.07x) with comfortable current ratio of 2.54x (PY: 2.33x) as on March 31, 2020. Although the steep increase in LLF, the liquidity position of CONCOR is expected to remain comfortable due to the large cash & bank balance aided by no debt repayments in FY21.

Key Rating Weaknesses
Competition from Private players
Numerous private container train operators (besides CONCOR) have entered in the segment and have signed long-term Concession Agreements with Indian Railways for running of container trains. Further, various private Inland Container Depots (ICDs) have become operational during past couple of years, which has also resulted in increased competition for the company. However, CONCOR has adopted various marketing activities like special discounts and packages, reduction in prices in case of bulk bookings, online tracking of shipment, focus on double stack operations to provide cost effective service etc. to compete in the market. The participation of CONCOR in the Freight Advance Scheme of IR would further yield competitive advantage, by enabling it to offer price stability to its customers.

Industry Scenario
The logistics chains are going through unusual and massive losses from the disruption caused by the COVID-19 pandemic. The shutdown of factories and scarcity of manpower to de-stuff cargo as well as drivers to operate trucks for cargo evacuation has derailed the trade and smooth functioning of the logistics industry. As per a recent CARE Report, cargo-wise, India’s rapidly growing container trade (25 per cent mix) is likely to take a bigger knock due to strong global inter-linkages in container movement. The coronavirus outbreak has stalled the continuous growth of cargo volumes, which registered positive growth for the period December 2019 to February 2020, to a negative year-on-year growth of 2.01 per cent in March 2020, dragged lower by a significant drop in container and

liquid cargo volumes. In FY20, cargo handling at India's major ports grew by a meagre 0.82 per cent as against 2.90 per cent growth achieved in the previous financial year.

Analytical approach: Not Applicable

Applicable Criteria
[Policy on Withdrawal of ratings]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios - Non-Financial Sector]
[CARE's criteria on Issuer Rating]
[Rating Methodology - Service Sector Companies]
[CARE's Methodology for factoring linkages in ratings]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
Container Corporation of India Ltd (CONCOR) was incorporated in March 1988 as a Public Sector Enterprise under the Ministry of Railways by taking over network of seven Inland Container Depots (ICDs) of Indian Railways (IR). The company was formed in order to have a separate organization for promoting and managing the growth of containerization in India as well as developing multi-modal (surface, rail, water and air) transport logistics and infrastructure to support India's growing inland as well as international trade. CONCOR's core business is characterized by three distinct activities, that of a carrier, a terminal operator and a warehouse operator.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7,137.55	6,753.52
PBILDT	2,036.15	1,954.66
PAT	1,215.41	375.78
Overall gearing (times)	0.07	0.00
Interest coverage (times)	2036.15	54.19

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-BG/LC	-	-	-	0.00	Withdrawn
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA+ (Is) (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is) (Under Credit watch with Developing Implications)	-	1)CARE AAA (Is) (Under Credit watch with Developing Implications) (28-Nov-19) 2)CARE AAA (Is); Stable (13-Nov-19)	1)CARE AAA (Is); Stable (09-Nov-18)	1)CARE AAA (Is); Stable (05-Oct-17)
2.	Non-fund-based - LT-BG/LC	LT	-	-	-	1)CARE AAA (Under Credit watch with Developing Implications) (28-Nov-19) 2)CARE AAA; Stable (13-Nov-19)	1)CARE AAA; Stable (09-Nov-18)	1)CARE AAA; Stable (05-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Issuer Rating-Issuer Ratings	Simple
2.	Non-fund-based - LT-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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